RATING REPORT

Crescent Bahuman Limited

REPORT DATE:
May 13, 2022

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Maintained	
Rating Date	*May 13, 2022*		*Jun 11' 2021*	

COMPANY INFORMATION	
Incorporated in 1993	**External auditors:** Riaz Ahmad & Co. Chartered Accountants.
Public Limited (Unlisted) Company	**Chairman of the Board:** Mr. Nasir Shafi
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Rizwan Shafi
Directors & Individuals (Family Members) – 68.7%	
The Crescent Textile Mills – 13.9%	
International Finance Corp – 9.1%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (Aug 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Crescent Bahuman Limited

OVERVIEW OF THE INSTITUTION

Crescent Bahuman Limited (CBL) was incorporated in 1993 under the repealed Companies Ordinance, 1984 (now Companies Act, 2017). The principal activity of the company is manufacturing and export of denim fabric and garments. The production facility is located at Sargodha Road, Pindi Bhattian and head office is located at 45-A Zafar Ali Road, Gulberg-V Lahore.

Profile of the Chairman:
Mr. Nasir Shafi is one of the founding members of CBL. He served as CEO of CBL since incorporation to April 2021. Now Mr. Nasir Shafi is serving as Chairman/Director of CBL. Mr. Nasir is an MBA from IBA, Karachi and has more than 50 years of work experience.

Profile of the CEO
Mr. Rizwan Shafi holds a Bachelor's degree in Textile Engineering from USA. He is CEO of CBL since April 2021, and had been serving on the Board of Directors of Crescent Bahuman Ltd from 2001 till April 2021.

RATING RATIONALE

Rationale Summary

The assigned ratings take note of moderate business risk profile of the Company, underpinned by highly experienced sponsors and senior management, vertically integrated denim jeans production capabilities, high-end pricing, controlled freight costs in times of global supply chain disruption, and continued investment in automation for efficiency enhancement. Ratings are supported by strong topline growth as well as projected growth. While margins are expected to remain under pressure due to increasing costs, volume growth is expected to support profitability growth. Ratings also account for equity growth and sound capitalization indicators which have been maintained on a timeline basis.

Industry Overview

In FY21, the Pakistan's exports increased by 14% owing to a low-base effect, resulting from the pandemic induced lockdowns in 2020. Overall, the figures of exports remain within the range of USD 22-25b, which is in line with the trend of past decade. The share of textiles in total exports has historically been 54-59%; coming in at 57% during FY21. The low-base effect was pronounced in textile sector as well, with the post-lockdown uptick of around 13% in the exports. Pakistan's textile exports have CAGR of 4.4% during 3 year period from FY19 to FY21. Within the textiles, high value-added segment held the maximum share, which has been trending upward for last three years, increasing from 73.9% in FY19 to 80.7% in FY21. Knitwear, readymade garments, and bed wear constitute the major portion of this segment.

The denim segment, in 2020, saw its share plunge in total exports due to demand disruption as a result of pandemic-induced lockdowns. As the export markets around the world gradually open up to higher retail spending, denim demand is being restored, and thus driving the revenues of denim manufacturers towards normal. Another demand driver has been the shifting of orders from competitors to Pakistan, owing to timely resumption of business and supply chains after the pandemic. Levi Strauss, the biggest purchaser of denim products has recently doubled its sourcing from Pakistan.

Key Rating Drivers:

Revenue growth back on track after the plunge in 2020

Revenues have recorded an uptick of 22% in FY21 on the back of an increased number of units sold as well as higher product prices. Export sales comprise of more than 90% of the total revenue. Garments make up the major chunk of export sales, followed by fabric. Local sales majorly consist of fabric, with a small proportion of yarn.

Circa 50% of the CBL exports are directed to the USA market, which performed better than the European market during COVID pandemic. About 15-16% of sales are directed to Germany, Sweden and UK. Remaining export sales entail multiple countries including Turkey and Bangladesh; management expects to tap into more markets in the future. Client concentration remains high with one client, Levi's, making up 70% of total sale.

Numerous geopolitical factors including shifting of orders from competitors to Pakistan, have driven the high demand for denim garments in the export market. Levi Strauss, the biggest client, has doubled its sourcing from Pakistan during last year from 17% to 35%, which alone is a significant demand driver. Going forward, it is expected that the demand will continue the upward trend, owing to further opening up of the international markets and decrease in the disruption of the supply chain.

Rising input cost to impact gross margins which historically have remained stable

The Company's gross margins have remained stable around 14% for last three years. In 1HFY22 however, gross margins witnessed a decline to 10.66%. Gross margin are projected to stay at this level over the rating horizon – however upcharges are expected in next fiscal year. The change in gross profit margin is primarily attributed to rising prices of cotton & yarn that has increased by more than double in this year as compared to last year, as well as other specialty chemicals, which also remain exposed to volatility in exchange rate fluctuation.

Operating and net margins on a timeline basis also depict a declining trend on account of increase in manpower costs which remains a major cost factor in garment manufacturing. High compliance costs also factor in constraining profitability. Impairment losses on assets, exchange gains and losses as well as allowances for credit losses has contributed towards volatile net margins, which lag behind the peer average.

Capex financing through equity helps maintain low debt capital structure

The Company has maintained its low debt capital structure through equity injection from time to time, in order to fund capital expenditures. In FY21, the company incurred a capex of in excess of Rs. 800m, of which Rs. 571 was financed through issuance of share capital, thereby maintaining gearing at 0.81x. Going forward, capex of more than Rs. 1.2b is planned in the next two years for capacity enhancement, primarily in the garment production segment financed through a combination of debt and equity.

Total equity of the Company increased to Rs. 5.6b in FY21 (FY20: Rs. 4.6b) on account of equity injection as well as retention of profits. Gearing and leverage indicators have trended downwards on a timeline basis with management expecting the same to reduce to 0.5x and 1.0x respectively over the rating horizon through profit retention and equity support, if required.

A sound liquidity position is supported by efficient working capital management

Funds from Operation (FFO) generation of the company increased significantly during FY21 on account of higher net income. Consequently, FFO to long term debt ratio improved to 23% despite an increase in long term debt. Liquidity position remains sound with improved current ratio of 1.38x (FY20: 1.24x) and reduced working capital cycle from 89 to 79 days. Short term debt coverage also stand comfortable at 1.67x. The aging of receivables is satisfactory, as more than 90% were not yet due at end-FY21 and end-Dec' 21, while 5-7% were due within three months. While debt service coverage improved to 3.31x on account of deferment of principal payments in 2020 under SBP's incentives, it is projected to remain above 2x going forward.

Corporate Governance framework offers rooms for improvement

During the year, changes were made in the composition of the Board, whereby the number of Board members were reduced to from seven to four. In line with best practices, increasing the Board size and inclusion of independent representation allows for formation of adequately represented Board level committees which provides support to overall governance of the Company.

The Company has an in-house internal audit function, comprising of a 5 membered-team reporting to the CEO and Chairman of the board. The Company has recently started shifting from oracle to Microsoft 365 Dynamics platform, The completion of the project is expected by FY23.

Crescent Bahuman Limited Annexure I

BALANCE SHEET	FY19	FY20	FY21
Fixed Assets	4,232.9	4,175.9	**4,624.3**
LT Investments	61.9	0.0	**0.0**
Stock-in-Trade	4,363.2	4,828.6	**4,825.8**
Trade Debts	1,696.8	1,571.1	**1,022.4**
Cash & Bank Balances	305.6	267.6	**573.9**
Total Assets	12,650.8	12,815.8	**14,081.0**
Trade and Other Payables	3,531.2	2,855.2	**2,877.4**
Long Term Debt (including current maturity)	372.5	310.4	**1,035.4**
Short Term Debt	3,324.9	4,026.6	**3,509.3**
Total Debt	3,697.4	4,337.0	**4,544.7**
Paid up Capital			
Total Equity (With surplus revaluation)	5,352.9	5,560.4	**6,581.4**
INCOME STATEMENT	**FY19**	**FY20**	**FY21**
Net Sales	14,046.6	13,375.9	**16,643.5**
Gross Profit	2,130.4	1,918.9	**2,349.4**
Profit Before Tax	706.6	315.6	**617.6**
Profit After Tax	571.9	182.9	**449.7**
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**
Gross Margin (%)	15.2%	14.3%	**14.1%**
Net Margin	4.1%	1.4%	**2.7%**
FFO	632.7	605.1	**1,024.9**
FFO to Total Debt (%)	17.1%	14.0%	**22.6%**
FFO to Long Term Debt (%)	169.9%	194.9%	**99.0%**
Current Ratio (x)	1.20	1.24	**1.38**
(Stock+ Trade Debts)/ Short-term Debt	1.82	1.59	**1.67**
Debt Servicing Coverage Ratio (x)	0.97	2.26	**3.31**
Gearing (x)	0.84	0.94	**0.81**
Leverage (x)	1.66	1.58	**1.33**
ROAA (%)	4.7%	1.4%	**3.3%**
ROAE (%)	14.0%	4.1%	**8.8%**

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES	**Annexure III**
Name of Rated Entity	Crescent Bahuman Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
13-05-2022	**A-**	**A-2**	**Stable**	**Reaffirmed**
11-06-2021	A-	A-2	Stable	Maintain
22-04-2020	A-	A-2	Rating Watch - Developing	Maintain
20-12-2019	A-	A-2	Stable	Initial

Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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Due Diligence Meeting

Name	Designation	Date
Mr. Yousaf Arshad	CFO	March 16, 2022
Mr. Waqar	Operations	
Ehsan S. Assad	AVP Banking and Treasury	